

**Presentations
on**

1. Introduction to Accounting

2. The Accounting Equation

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Scope of Study

Marks distribution
-
Trend Analysis
(appx.)

		Marks
01	Introduction	15-25
02	The Accounting equation	
03	Recording financial transaction	
04	Ledger & Double Entry	
05	Preparing basic FS	
06	Control A/c, errors & omission	20
07	Cost of sales, accrual & prepayments	10
08	Irrecoverable debts & allowances	05-10
09	Inventory	
10	Noncurrent assets & depreciation	15
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12	Statement of Cash Flows	
13	Sole trader & Partnership A/c	
	IAS & IFRS related	5

Last year question solution

Scope of Study

Important IAS
(Certificate level-
Accounting)

	The Conceptual Framework for Financial Reporting
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 16	Property, Plant and Equipment
IFRS 15	Revenue
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets

Accounting ???

Accounting is an art of **recording, analyze and summarizing** the **financial information** in a significant manner.

Recording refers creating journal entry for all transactions with debit and credit.

Analyzed & Classifying refers classifying all debit and credits into revenue/capital nature along with Assets, Liabilities, Income, expenses.

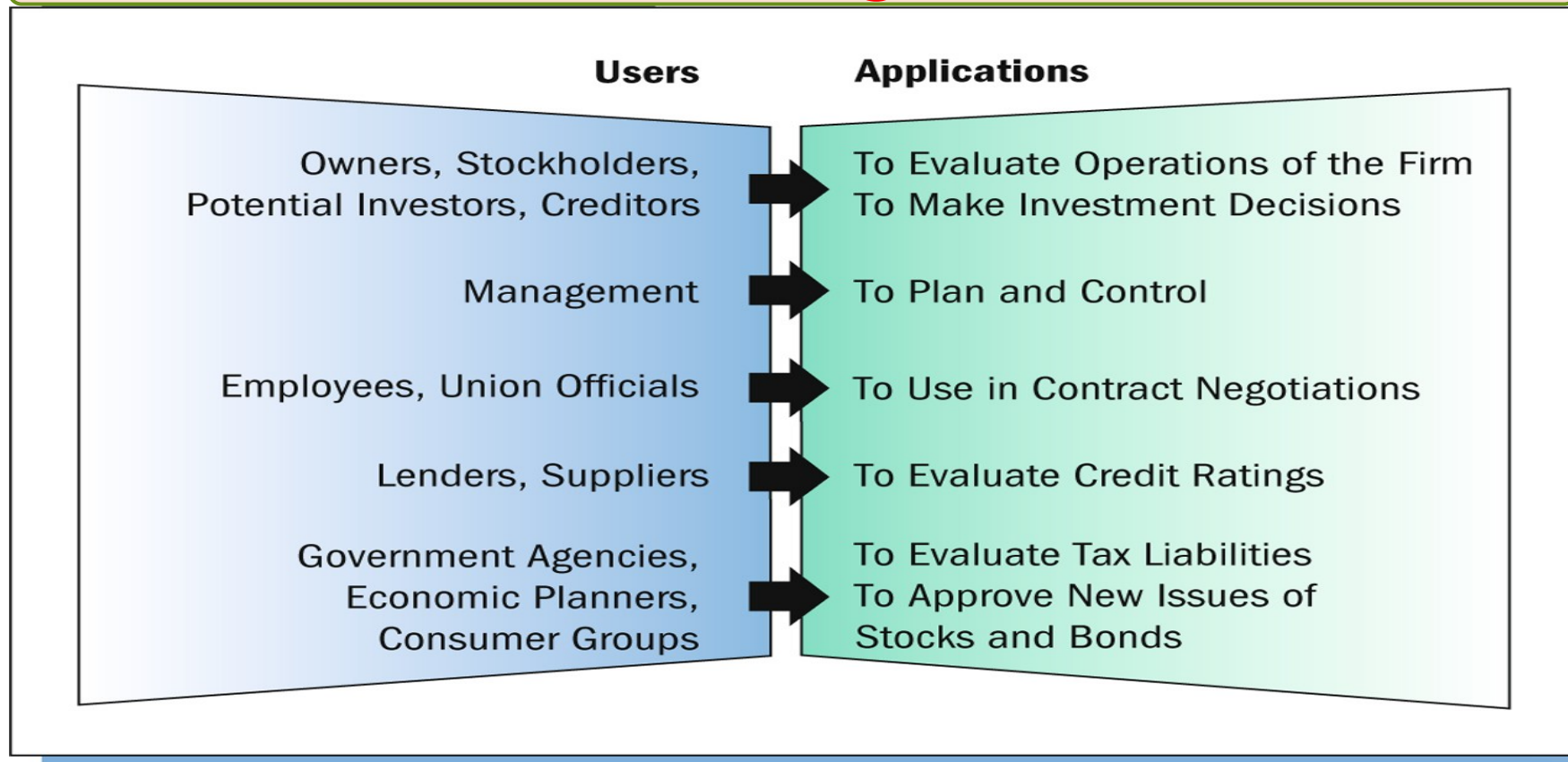
Summarizing refers summarize all financial information into Financial Statements

Accounting ???

- Share holders
- Regulator
- Prospective investors
- Employee
- Other Stakeholders
- Customers

Accounting ???

User of Accounting Information



Accounting ???

Books of Accounts = Set of Financial Statements

- ✓ a statement of financial position – **Balance Sheet**
- ✓ a statement of profit and loss and other comprehensive income
- ✓ a statement of changes in equity
- ✓ a statement of cash flows for the period;
- ✓ notes, significant accounting policies and other explanatory information;
- ✓ comparative information – **as per standard**

Objective of Financial Statements

The objective of general purpose financial statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making economic decisions.

Also shows management stewardship of resources entrusted to it, predicting entity's future cash flow – for potential investor.

Regulation of Accounting

→ Legislation

(The Companies Act 1994, BSEC regulation, The Bank Companies Act 1991, etc)

→ Accounting concepts & individual judgment

(Valuation, brand value, reputation – judgement may vary)

→ Accounting Standards

(IAS, IFRS) ifrsbox and iasplus

→ Commonly used accounting practice

(UK GAAP, US GAAP- companies act, IAS, statutory requirement, listing rules)

→ True and fair view/ fair presentation

(Fundamental QC: Relevance & Faithful presentation)

Qualitative Characteristics of Financial Information

→ Fundamental Qualitative Characteristics:

- Relevance

 - Predictive value: input to predict future outcome

 - Confirmatory value: feedback for previous evaluation

- Faithful representation

 - Complete (QC 12): includes all information

 - Neutral (QC 13): without bias

 - Free from errors (QC 14)

→ Enhancing Qualitative Characteristics:

- Comparability: enable to identify similarities in & diff among

 - Verifiability: direct & indirect

 - Timeliness

 - Understandability

Capital and Revenue Expenditure

Capital Expenditure:

is the expenditure where the benefits are not fully consumed in a year but spread over **several years**.

Example:

- Land & Building
- Machinery
- Equipment
- Advance, prepayments etc

Capital and Revenue Expenditure

Revenue Expenditure:

is the expenditure which provides benefits in the **current accounting year only**. It can not be forwarded to next year or years.

Example:

- Salary expenses
- Rent
- Electricity
- Depreciation-is a revenue expenditure!!!!!!

Expenses vs Expenditure

Expenses:

Reported on the income statement;

is a cost that has expired, was used up, or was necessary to earn the revenues during the time period

Expenditure:

is a payment or disbursement;

may be for the purchase of an asset, a reduction of liability, distribution to the owners, or it an expense

Capital and Revenue Income

Capital Income:

From sale of non- current assets.

Revenue Income:

- Sale of trading assets
- Services
- Interest & dividend from business investment

Materiality

Information is material if omitting it or misstating it could **influence decision** that users make on the basis of financial information about a specific reporting entity.

Balance Sheet

Statement of Financial Position, also known as the Balance Sheet, presents the financial position of an entity at a given date. Comprised following three elements:

- **Assets:** Something a business owns or controls (e.g. cash, inventory, plant and machinery, etc)
- **Liabilities:** Something a business owes to someone (e.g. creditors, bank loans, etc)
- **Equity:** Represents the amount of capital that remains in the business after its assets are used to pay off its outstanding liabilities. Equity therefore represents the difference between assets and liabilities.

Assets



Liabilities



Equity

Balance Sheet

Assets- recognition:

An assets is recognized in the Balance Sheet when it is probable that the **future economic benefit will flow** to the entity and asset has a cost or value can be measured reliably.

Liability- recognition:

A Liability is recognized in Balance Sheet when it is probable that an **outflow of resources** embodying economic benefit will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.

Balance Sheet

Current assets:

- ▮ Expected to be realized/intended to sale/ consume – normal operating cycle;
- ▮ Holds – purpose of trading;
- ▮ To be realized within 12 months;
- ▮ Cash & cash equivalent

Inventory, Trade & other
receivable,
Cash

Non- Current assets:

Expected to be recovered/settled over more than one accounting year.

Property, plant &
equipment
Intangible non- current
assets
Long term investment

Balance Sheet

Current liability:

- ▢ Expected to be settle – normal operating cycle;
- ▢ Holds – purpose of trading;
- ▢ To be settled within 12 months;
- ▢ Does not have unconditional right to defer 12 months

Short term borrowing
Trade & Other payable
Accrued cost

Non-Current liability:

All other liabilities under non- current.

Bank loan
Long term borrowing

Income Statement

A record of income recognized and expenses incurred over a given period.

Entity's financial performance over a period of time.

Income is increases in economic benefit

- inflow
- enhancement of assets
- decrease of liabilities

resulting increases in equity.

Expenses is decrease in economic benefit

- outflow
- depletions of assets
- incurrences of liabilities

resulting decreases in equity.

Statement of Cash Flow

Presents the movement in cash and bank balances over a period. The movement in cash flows is classified into the following segments:

Operating Activities: Represents the cash flow from primary activities of a business.

Investing Activities: Represents cash flow from the purchase and sale of assets other than inventories (e.g. purchase of a factory plant)

Financing Activities: Represents cash flow generated or spent on raising and repaying share capital and debt together with the payments of interest and dividends.

Statement of Changes in Equity

Details the movement in owners' equity over a period. The movement in owners' equity is derived from the following components:

- ▶ Net Profit or loss during the period as reported in the income statement.
- ▶ Share capital issued or repaid during the period.
- ▶ Dividend payments.
- ▶ Gains or losses recognized directly in equity. (e.g. revaluation surpluses)
- ▶ Effects of a change in accounting policy or correction of accounting error.

The Accounting Equation



**Luca Pacioli
Developer of
Double-Entry
Accounting,
c1494**

According to Pacioli, “ Double-entry accounting is based on a simple concept: each party in a business transaction will receive something and give something in return. In accounting terms, what is **received is a debit and what is **given is a credit**. The T account is a representation of a scale or balance.”**

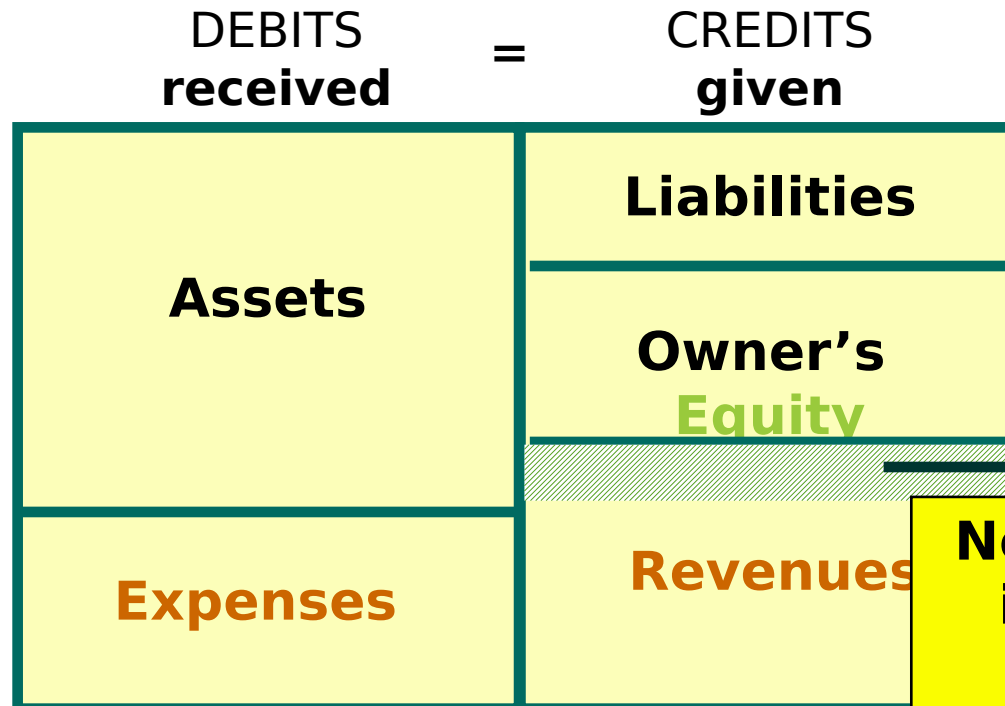


Double Entry Accounting System

- Based on principle of **dual aspect** of each transaction
- For correct presentation **both of them should be recorded**
- Requires maintenance of records of **assets, liabilities, revenues and expenditure**
- **Impact of each transaction** can be seen or measured
- Total assets are equal to total equities.

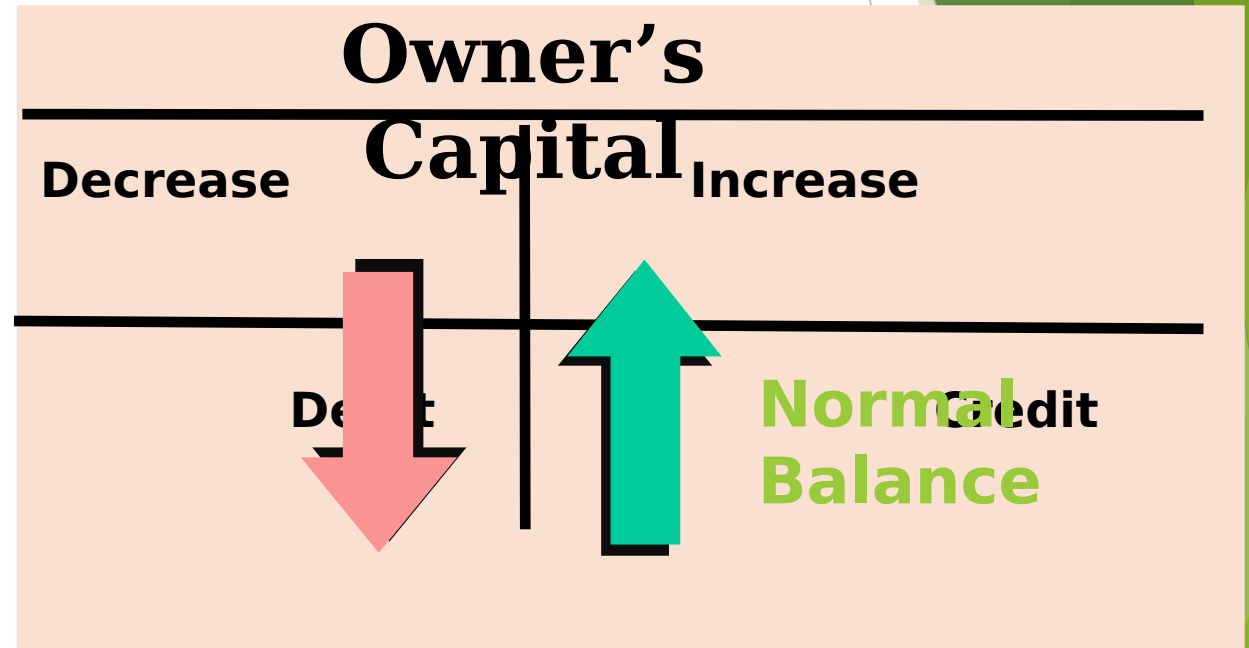
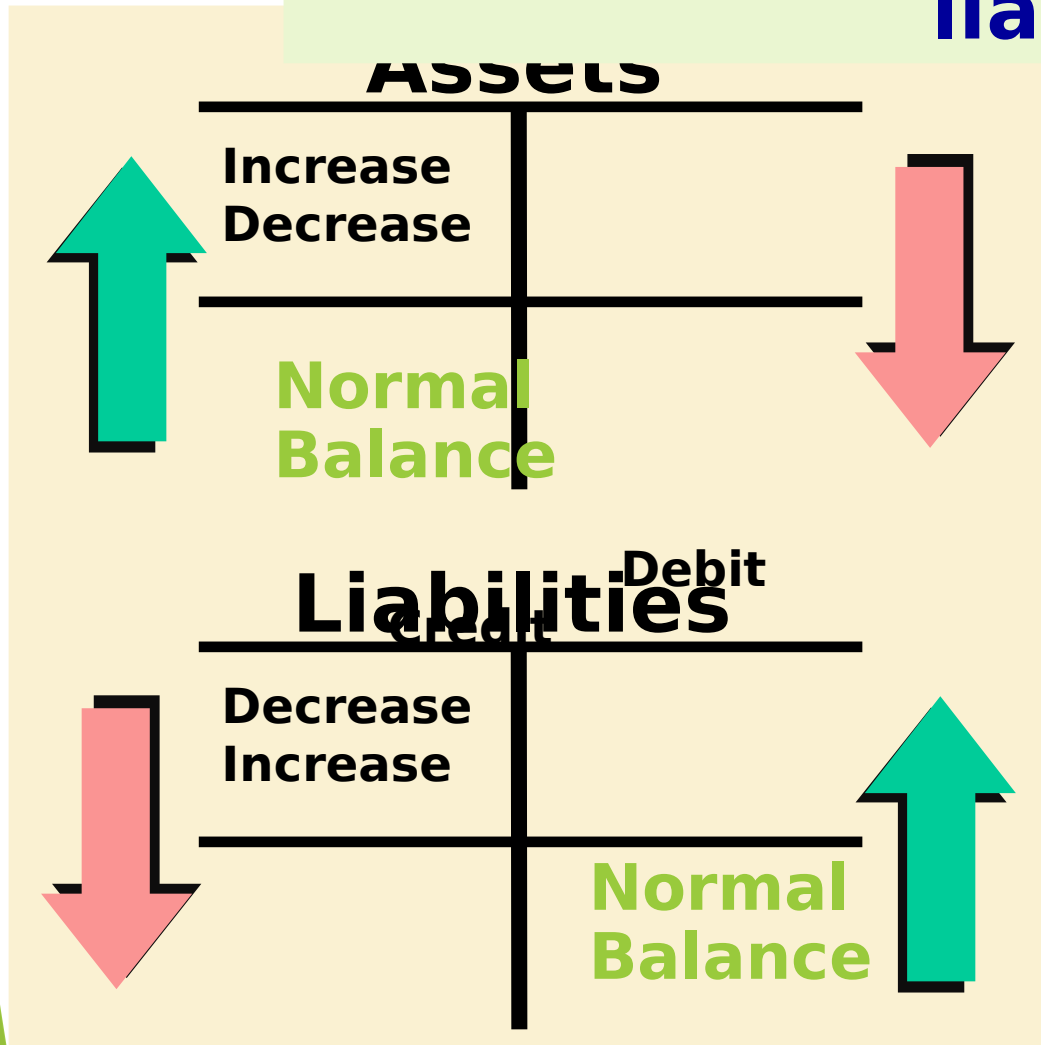
Expanded Accounting Equation

“ The basic accounting equation can be expanded to include all **five financial categories** indicating what has been received and given.”



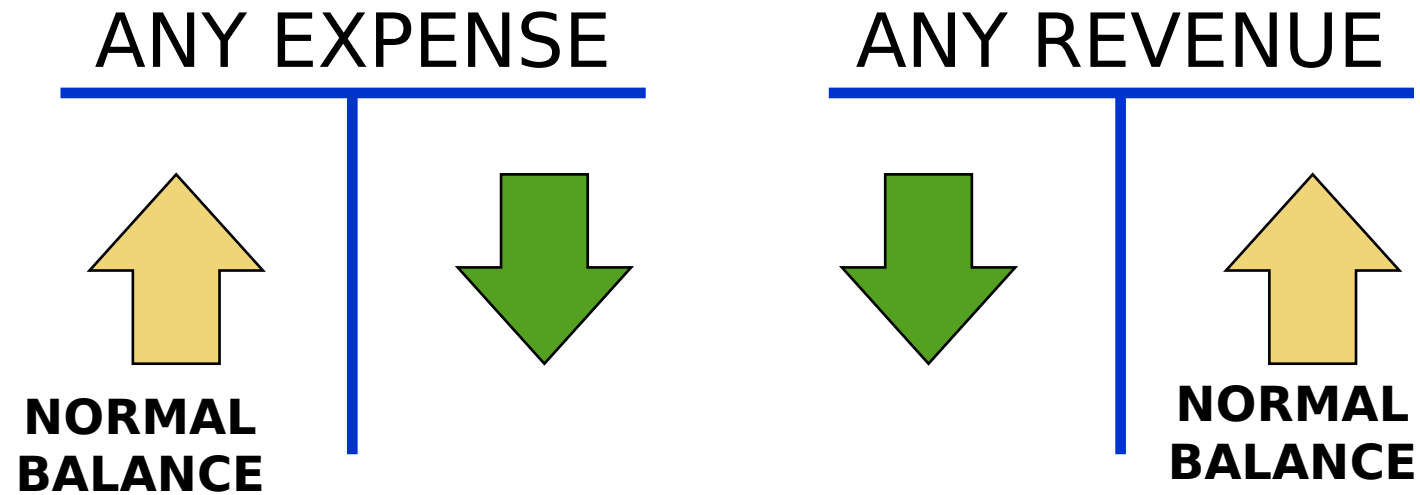
**Net Income
is part of
owner's
equity**

Normal balances — assets and liabilities



Debit
Credit

Revenues and Expenses



The Accounting Equation

$$\text{Assets} = \text{Equities} + \text{Liabilities}$$

ABC started business with capital Tk. 100,000 in cash.

$$100,000 = 100,000 + 0$$

Equipment cash : Tk.20,000, Deposited Bank: Tk.5,000, Purchase raw materials

$$(100,000 - 20,000 + 20,000 - 5,000 + 5,000 - 2,000 + 2,000) = 100,000 + 0$$

Goods costing Tk 2000 sold for Tk. 5,000

$$(100,000 - 2,000 + 5,000) = (100,000 + 3,000) + 0$$

Purchase in credit: Tk. 1,000, Bank Loan: Tk. 5,000

$$(103,000 + 1,000 + 5,000) = (100,000 + 3,000) + (1,000 + 5,000)$$

The Accounting Equation

Transaction	Assets	=	Liabilities	+	Capital	Differnece
1. Owner's investment	20,000	=		+	20,000	-
2. Loan from bank	30,000	=	30,000	+		-
3. Purchased printers on cash	1,000 (1,000)	=		+		-
4. Service revenue for cash	500	=		+	500	-
5. Service revenue on account	750	=		+	750	-
6. Supplies purchase on account	200	=	200	+		-
7. Repair of equipment on account		=	400	+	(400)	-
8. Owner's withdrawal	(5,000)	=		+	(5,000)	-
9. Payment of loan	(10,000)	=	(10,000)	+		-
10. Collection of accounts	750 (750)	=		+		-
Balance	36,450	=	20,600	+	15,850	-

Accruals concept

The Accrual (or matching) concept requires that **revenue earned is matched with the expenses incurred** in earning it.

Recording revenues: when they are earned and not when they are received in cash, and

Recording expenses: when they are incurred and not when they are cash paid.

Under Accrual basis of Accounting, an entity recognizes items as assets, liabilities, equity, income and expenses, when they **satisfy the definition and recognition criteria** for those elements in the framework.

- **Cash basis accounting:** is the practice of recording revenues when cash is received and recording expenses when the expense is paid.

True and fair view

True and fair view means that the financial statements are **free from material misstatements and faithfully represent** the financial performance and position of the entity.

The financial statements must **"present fairly"** the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the **definitions and recognition criteria for assets, liabilities, income and expenses** set out in the framework.

Going Concern

The Conceptual Framework notes that financial statements are normally prepared assuming the entity is a going concern and **will continue in operation for the foreseeable future**.

When entity does not prepare Financial Statement on a going concern basis, it shall disclose the fact, together with the basis on which it prepared FS & reasons why the entity is not regarded as going concern.

Going Concern

Major Going Concern problems:

- ✓ *Deteriorating liquidity position* - without financing arrangements.
- ✓ *High financial risk* - vulnerable to delays in payment of interest and loan principle.
- ✓ *Significant trading losses* - several years.
- ✓ *Aggressive growth strategy* - not backed by sufficient finance which ultimately leads to over trading.
- ✓ *Increasing level of short term borrowing and overdraft-* not supported by increase in business.
- ✓ Inability of the company to maintain liquidity ratios.
- ✓ Serious litigations faced by a company.
- ✓ Internal matters – work stoppage, labor difficulties etc.
- ✓ Bankruptcy of a major customer of the company.

Departure from Accounting Standard

An entity may need to produce financial reports which do not comply with a specific accounting standard, if compliance with the standard would be so misleading they do not provide useful information to users, and the financial statements would no longer be fairly presented.

Must disclose:

- management has concluded that the FS present fairly the entity's financial position, financial performance and cash flows;
- complied with applicable standards and Interpretations, except the specified departure to achieve a fair presentation;
- the title of the standard or interpretation from which the entity has departed, - the nature including the treatment that the IAS/ IFRS would require, the reason why that treatment would be misleading, and the treatment adopted; and
- the financial effect of the departure on each item in the FS that would have been reported in complying with the requirement.

Departure from Accounting Standard

Banking industry:

- Presentation of Financial Statements
- Revaluation Gain
- Provision for loans and advances
- Repo Transaction
- Financial Guarantee
- Cash & Cash equivalent
- Non- Banking Assets
- Intangible Assets

Process of Accounting Record

Transaction

A transaction is a business event that has a monetary impact on an entity's financial statements, and is recorded as an entry in its accounting records.

Process of Accounting Record

Transaction

Analyze & classify

Major consideration:

- Documentation
- Necessary approval
- Cash
- Accrual
- Transfer
- Nature - revenue/ capital
- CoA of organization

Process of Accounting Record

Transaction

Analyze & classify

Journal- GL

A journal entry is the record of a financial transaction recorded (entered) in a journal.

A journal details all the financial transactions of a business and which accounts these transactions affect

Process of Accounting Record

Transaction

Analyze & classify

Journal- GL

Journal: Double Entry System

Debit: One GL head
Credit: One GL head

Process of Accounting Record

Transaction

Analyze & classify

Journal- GL

Posting- GL

Entry pass in Accounting software

- > Entry the transactions
 - > Authorized the transactions

- > Implementation:

- Cash inflow/ outflow
- Inter transfer

Process of Accounting Record

Transaction

Analyze & classify

Journal- GL

Posting- GL

**Trial Balance
preparation**

List of closing balances of ledger accounts on a certain date and is the first step towards the preparation of financial statements.

Ledger balances are segregated into debit balances and credit balances.

Asset and expense accounts appear on the debit side of the trial balance

Liabilities, capital and income accounts appear on the credit side

Process of Accounting Record

Transaction

Analyze & classify

Journal- GL

Posting- GL

**Trial Balance
preparation**

Adjustment Entries

- Taxation
- WPPF
- Contingent liabilities
- Provision on doubtful debts
- Others – if any

Process of Accounting Record

Transaction

Analyze & classify

Journal- GL

Posting- GL

**Trial Balance
preparation**

Adjustment Entries

**Financial
Statements**

Advanced Chemical Industries Limited Statement of Financial Position

In Crore

Non-
current

Current

Equity

In Taka	30-Jun-16	31-Dec-15	31-Dec-14
Assets			
Property, Plant and Equipment	660	654	380
Investments	190	186	180
Intangible assets	0.10	0.03	0.08
Non-Current assets	850	840	560
Inventories	395	395	296
Trade receivables	225	195	135
Other receivables	56	24	11
Inter-company receivables	342	301	434
Advances, deposits and prepayments	180	126	70
Cash and cash equivalents	62	53	46
Current assets	1,261	1,094	993
Total assets	2,111	1,934	1,553
Equity			
Share capital	40	40	34
Share premium	40	40	35
Reserves	328	327	105
Retained earnings	787	765	486
Total equity	1,195	1,172	661

Advanced Chemical Industries Limited Statement of Financial Position

In Crore

In Taka	30-Jun-16	31-Dec-15	31-Dec-14
Liabilities			
Employee benefits	59	55	44
Long term bank loan	5	4	5
Other non-current liabilities	0.04	0.04	0.15
Deferred tax liabilities	47	51	6
Non-Current liabilities	111	110	56
Bank overdraft	111	62	43
Loans and borrowings	296	282	592
Trade payables	59	64	36
Other payables	167	156	112
Inter-company payables	65	12	14
Current tax liabilities	107	78	39
Current liabilities	804	655	836
Total liabilities	916	764	892
Total equity and liabilities	2,111	1,936	1,553

Non-
current

Current

Advanced Chemical Industries Limited

Statement of Profit or Loss

In Crore

In Taka	For the eighteen month period ended	For the six month period ended	For the year ended	
	30-Jun-16	30-Jun-16	31-Dec-15	31-Dec-14
Revenue	2,251	794	1,457	1,232
Cost of Sales	(1,269)	(438)	(830)	(715)
Gross Profit	982	356	626	517
Administrative, Selling and distribution expenses	(767)	(293)	(474)	(347)
Other Income	18	9	9	8
Operating Profit	233	72	161	179
Gain from sale of brands	281	29	252	-
Investment impairment provision	(5)	(2)	(3)	(15)

Advanced Chemical Industries Limited

Statement of Profit or Loss

In Crore

In Taka	Note	For the eighteen month period ended	For the six month period ended	For the year ended	
		30-Jun-16	30-Jun-16	31-Dec-15	31-Dec-14
Contribution to WPPF	27.1	(12)	(5)	(7)	(7)
Profit before tax		486	92	393	127
Income tax expense	35				
Current tax		(68)	(28)	(39)	(36)
Deferred tax income/ (expense)		(32)	4	(36)	4
		(100)	(25)	(75)	(32)
Profit after tax		386	68	318	95
Earning per share	36				
Basic earnings per share		97.06	17.06	80.00	24.02
Diluted earnings per share		97.06	17.06	80.00	23.89

**Advanced Chemical Industries
limited
Statement of Profit or Loss and other
Comprehensive Income**

In
Crore

In Taka	Note	For the eighteen month period ended	For the six month period ended	For the year ended	
		30-Jun-16	30-Jun-16	31-Dec-15	31-Dec-14
Profit after tax		386	68	318	95
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Revaluation surplus on property, plant and equipment	19	227	-	227	
Related tax on revaluation surplus		(8)	-	(8)	
		218		218	
Items that may be reclassified subsequently to profit or loss					
Change in fair value of available for sale financial assets	19.3	5	1	4	5
Related tax on available for sale of financial assets		(1)	(0.1)	(0.4)	(1)
		5	1	3	5
Gain on amalgamation					

The background features abstract, overlapping green geometric shapes in various shades of green, creating a modern, layered effect on the right side of the slide.

THANK YOU

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